

**BARAGA AREA SCHOOLS
BARAGA, MICHIGAN
FINANCIAL STATEMENTS
For the Year Ended June 30, 2006**

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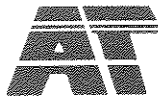
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INDEPENDENT AUDITORS' REPORT

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baraga Area Schools, as of and for the year ended June 30, 2006, which collectively comprise the Baraga Area School's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Baraga Area School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Baraga Area Schools as of June 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 3, 2006 on our consideration of the Baraga Area School's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Baraga Area Schools

The management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 32 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Baraga Area School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Baraga Area Schools. The combining and individual fund financial statements and schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 3, 2006

Baraga Area Schools

Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Baraga Area Schools financial performance provides an overview of the School District's financial activities for the year ended June 30, 2006. Please read it in conjunction with the financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- Net assets for Baraga Area Schools as a whole were reported at \$1,233,386, comprised of 100% governmental activities.
- During the year, the Baraga Area Schools expenses were \$6,599,437, while revenues from all sources totaled \$5,609,347, resulting in a decrease in net assets of \$990,090.
- The general fund reported a decrease of \$575,030 before other financing sources (uses). This is \$132,303 or 19% lower than the forecasted decrease of \$707,333. This was a result of revenues being \$70,923 higher and expenses being \$61,380 lower than forecasted, both of which are immaterial when compared with budgeted revenues of \$4,872,883 and budgeted expenditures of \$5,580,216.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Baraga Area Schools financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 12 and 13) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 14. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant funds – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Baraga Area Schools as a whole begins on page 7. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets – the difference between assets and liabilities – is one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall financial health of the School District.

Management's Discussion and Analysis (Unaudited) (Continued)

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – Fund Financial Statements

Our analysis of the School District's major funds begins on page 9. The fund financial statements begin on page 14 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use different accounting methods.

- **Governmental funds** – Most of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.

The School District as Trustee – Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2006 and 2005:

Table 1		
Net Assets		
	Governmental Activities – 2006	Governmental Activities – 2005
Current and other assets	\$2,556,108	\$3,161,398
Capital assets, net	3,598,977	3,795,983
Total Assets	6,155,085	6,957,381
Current liabilities	682,785	589,970
Long-term liabilities	4,238,914	4,143,935
Total Liabilities	4,921,699	4,733,905
Net Assets:		
Invested in capital assets, net of related debt	(599,976)	(349,989)
Restricted	36,202	42,156
Unrestricted	1,797,160	2,531,309
Total Net Assets	\$ 1,233,386	\$ 2,223,476

The School District's net assets were \$1,233,386 at June 30, 2006. Capital assets, net of related debt totaling \$(599,976), compares the original cost, less depreciation of the School District's capital assets to long-term debt, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-

Management's Discussion and Analysis (Unaudited) (Continued)

approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$1,797,160 was unrestricted.

The \$1,797,160 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and 2005.

Table 2
Change in Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues		
Program revenues:		
Charges for services	\$123,454	\$118,049
Operating grants and contributions	1,439,108	1,541,882
Capital grants and contributions	4,520	960
General revenues:		
Property taxes	864,167	923,246
State sources not restricted to specific program	3,067,930	3,409,858
Investment earnings	65,490	49,118
Miscellaneous	44,678	109,689
Total Revenues	<u>5,609,347</u>	<u>6,152,802</u>
Program Expenses:		
Instruction	3,292,769	3,142,187
Supporting services	2,157,090	2,142,398
Payments to other governmental agencies	3,250	5,575
Facilities acquisitions	45,978	13,494
Food service activities	215,298	241,793
Athletic activities	155,401	125,444
Bookstore activities	809	429
Interest on retirement of debt	499,825	426,364
Depreciation – unallocated	229,017	231,713
Total Expenses	<u>6,599,437</u>	<u>6,329,397</u>
Increase (decrease) in net assets	(990,090)	(176,595)
Net assets, beginning	<u>2,223,476</u>	<u>2,400,071</u>
Net Assets, Ending	<u>\$1,233,386</u>	<u>\$2,223,476</u>

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$6,599,437. Certain activities were partially funded from those who benefited from the programs \$123,454 or by other governments and organizations that subsidized certain programs with grants and contributions \$1,443,628. We paid for the remaining "public benefit" portion of our governmental activities with \$864,167 in taxes, \$3,067,930 in State Foundation Allowance, and with our other revenues, such as interest and general entitlements.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District experienced a decrease in net assets for the year of \$990,090.

Key reasons for the change in net assets were as follows:

- Net decrease in governmental fund balances of (\$727,841).
- Depreciation charged to expense of (\$229,017).
- Purchase of capital assets in the amount of \$32,011.
- Proceeds from debt issues in the amount of (\$253,268) and payments of principal on debt of \$200,287.
- Change in compensated absences (\$12,262).

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost Of Services	Net Cost Of Services
Instruction	\$3,292,769	\$1,990,729
Supporting services	2,157,090	2,157,090
Interest on retirement of debt	499,825	463,954
Food service activities	215,298	11,544
Depreciation - Unallocated	229,017	229,017

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$2,043,873, a decrease of \$727,841 from the beginning of the year.

This was due to the following:

1. Higher than expected number of retiring employees resulting in a larger than planned payoff to retirees.
2. Less State Aid revenue than initially projected.
3. A \$100,000 plus deduction in State Aid due to a recapture of Downtown Development Authority payments made the previous fiscal year.
4. Expenses planned for but not budgeted for by the outgoing administration.

Management's Discussion and Analysis (Unaudited) (Continued)

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget were as follows:

Budgeted revenues were increased by \$161,129. This was due to the following:

1. Larger than expected Impact Aid revenues.
2. Unexpected Delinquent Tax revenues.

Budget expenditures were increased by \$75,086. This was due to the following:

1. Higher than normal and unexpected substitute costs.
2. Unexpected retirement incentive payoffs.

Reasons for variances between the final budget and final actual amounts were as follows:

Revenues were \$70,923 higher than budgeted. This was due to the following:

1. Unexpected delinquent tax collection.
2. Unanticipated revenues from a donation made by the KBIC Tribal Council.

Expenditures were \$61,380 lower than budgeted. This was due to the following:

1. Conservative efforts were used to minimize expenses right up to the last day of the fiscal year.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2006, the School District had \$3,598,977 invested in a variety of capital assets including land, buildings, and machinery and equipment. (See table 4 below)

Table 4
Capital Assets at Year End
(Net of Depreciation)

	2006	2005
Land	\$700	\$700
Site improvements	787,950	818,902
Buildings	2,505,553	2,598,816
Equipment	199,785	245,403
Vehicles and buses	104,989	132,162
Construction-in-progress	-	-
Totals	<u>\$3,598,977</u>	<u>\$3,795,983</u>

We anticipate capital additions for the 2006-2007 fiscal year will be comparable to the 2005-2006 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Management's Discussion and Analysis (Unaudited) (Continued)

Debt

At the end of this year, the School District had \$4,198,953 in bonds outstanding as depicted in Table 5 below.

Table 5
Outstanding Debt at Year End

	Governmental Activities – 2006	Governmental Activities – 2005
General obligation bonds	\$339,862	\$540,149
State Bond Loan Program	3,859,091	3,605,823
Totals	<u>\$4,198,953</u>	<u>\$4,145,972</u>

There were no new additions of long-term debt this year, except for payment of old debt through the State Bond Loan Program which amounted to \$253,268. We present more detailed information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2006-2007 budget. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The 2006-2007 fiscal year budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 75 percent to 80 percent of total General Fund revenues are from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general obligations. As a result, the district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006-2007 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2005-2006 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget, if actual district resources are not sufficient to fund original appropriations.

The State budget continues to be an area of concern for local school districts. State revenues are falling short of projections, which could mean reduced funding at the local level.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Baraga Area Schools, 210 Lyons Street, Baraga, Michigan, 49908.

Baraga Area Schools
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 1,415,540
Investments	121,337
Receivables:	
Accounts receivable	28,823
Delinquent property taxes	133,105
Due from other governmental units	812,649
Inventories	35,537
Prepaid expense	9,117
	<hr/>
TOTAL CURRENT ASSETS	2,556,108
	<hr/>
Non-current assets:	
Land and construction in progress	700
Capital assets	7,167,767
Less accumulated depreciation	(3,569,490)
	<hr/>
TOTAL NON-CURRENT ASSETS	3,598,977
	<hr/>
TOTAL ASSETS	6,155,085
	<hr/>
LIABILITIES:	
Current liabilities:	
Accounts payable	53,428
Accrued liabilities	330,241
Deferred revenue	128,566
Current portion of long term debt obligations	170,550
	<hr/>
TOTAL CURRENT LIABILITIES	682,785
	<hr/>
Non-current liabilities:	
Non-current portion of employee benefit obligations	210,511
Non-current portion of long term debt obligations	4,028,403
	<hr/>
TOTAL NON-CURRENT LIABILITIES	4,238,914
	<hr/>
TOTAL LIABILITIES	4,921,699
	<hr/>
NET ASSETS:	
Invested in capital assets net of related debt	(599,976)
Restricted:	
Debt Service	36,202
Unrestricted	1,797,160
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TOTAL NET ASSETS	\$ 1,233,386
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The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Statement of Activities

For the Year Ended June 30, 2006

Function / Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 3,292,769	\$ -	\$ 1,302,040	\$ -	\$ (1,990,729)
Supporting services	2,157,090	-	-	-	(2,157,090)
Payments to other governmental agencies	3,250	-	-	-	(3,250)
Facilities acquisitions	45,978	-	-	4,520	(41,458)
Food service activities	215,298	102,557	101,197	-	(11,544)
Athletic activities	155,401	20,619	-	-	(134,782)
Bookstore activities	809	278	-	-	(531)
Interest on retirement of debt	499,825	-	35,871	-	(463,954)
Depreciation - unallocated	229,017	-	-	-	(229,017)
TOTAL GOVERNMENTAL ACTIVITIES	6,599,437	123,454	1,439,108	4,520	(5,032,355)

General revenues and transfers:

Taxes:					
Property taxes, levied for general purposes					460,785
Property taxes, levied for debt services					403,382
Federal and State aid not restricted to specific purposes:					
General					3,067,930
Interest and investment earnings					65,490
Miscellaneous					44,678
Transfers					-

TOTAL GENERAL REVENUE AND TRANSFERS

					4,042,265
CHANGES IN NET ASSETS					(990,090)
Net Assets, July 1					2,223,476

NET ASSETS, JUNE 30

\$	1,233,386
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The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Balance Sheet

June 30, 2006

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 1,392,204	\$ 23,336	\$ 1,415,540
Investments	120,560	777	121,337
Receivables:			
Accounts receivable	12,332	16,491	28,823
Delinquent property taxes	84,754	48,351	133,105
Due from other governmental units	812,649	-	812,649
Inventories	33,280	2,257	35,537
Prepaid expense	9,117	-	9,117
TOTAL ASSETS	<u><u>\$ 2,464,896</u></u>	<u><u>\$ 91,212</u></u>	<u><u>\$ 2,556,108</u></u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 37,829	\$ 15,599	\$ 53,428
Accrued liabilities	330,241	-	330,241
Deferred revenue	113,347	15,219	128,566
TOTAL LIABILITIES	<u>481,417</u>	<u>30,818</u>	<u>512,235</u>
FUND BALANCES:			
Reserved for:			
School service activities	-	24,192	24,192
Retirement of debt	-	36,202	36,202
Unreserved:			
Undesignated	1,983,479	-	1,983,479
TOTAL FUND BALANCES	<u>1,983,479</u>	<u>60,394</u>	<u>2,043,873</u>
TOTAL LIABILITIES AND FUND BALANCES	<u><u>\$ 2,464,896</u></u>	<u><u>\$ 91,212</u></u>	<u><u>\$ 2,556,108</u></u>

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Total Fund Balances for Governmental Funds		\$	2,043,873
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Cost of capital assets	7,168,467	
Accumulated depreciation	<u>(3,569,490)</u>	
		3,598,977

Long-term liabilities are not due and payable in the current period and are not reported in the funds. Long-term liabilities at year-end consist of:

Bonds payable - current	170,550	
Bonds payable - long term	4,028,403	
Employee benefits payable	<u>210,511</u>	
		(4,409,464)

NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$</u>	<u>1,233,386</u>
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The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
REVENUES:			
Property taxes	\$ 460,785	\$ 403,382	\$ 864,167
Federal sources	893,300	90,395	983,695
State Aid	3,476,670	46,673	3,523,343
Local sources	49,198	123,454	172,652
Interest	63,853	1,637	65,490
TOTAL REVENUES	<u>4,943,806</u>	<u>665,541</u>	<u>5,609,347</u>
EXPENDITURES:			
Current:			
Instruction	3,283,572	-	3,283,572
Supporting services	2,186,036	-	2,186,036
Payments to other governmental agencies	3,250	-	3,250
Facilities acquisitions	45,978	-	45,978
Food service activities	-	215,298	215,298
Athletic activities	-	155,401	155,401
Bookstore activities	-	809	809
Debt Service:			
Principal	-	211,368	211,368
Interest	-	488,744	488,744
TOTAL EXPENDITURES	<u>5,518,836</u>	<u>1,071,620</u>	<u>6,590,456</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(575,030)</u>	<u>(406,079)</u>	<u>(981,109)</u>
OTHER FINANCING SOURCES (USES):			
Transfers in (out)	(161,194)	161,194	-
Proceeds from sale of bonds	-	253,268	253,268
TOTAL OTHER FINANCING SOURCES (USES)	<u>(161,194)</u>	<u>414,462</u>	<u>253,268</u>
NET CHANGE IN FUND BALANCES	<u>(736,224)</u>	<u>8,383</u>	<u>(727,841)</u>
Fund Balance, July 1	<u>2,719,703</u>	<u>52,011</u>	<u>2,771,714</u>
FUND BALANCE, JUNE 30	<u><u>\$ 1,983,479</u></u>	<u><u>\$ 60,394</u></u>	<u><u>\$ 2,043,873</u></u>

The accompanying notes are an integral part of these financial statements.

Baraga Area Schools

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (727,841)
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	(229,017)	
Capital outlays - facilities acquisition	-	
Capital outlays - supporting services	32,011	
Capital outlays - instruction	-	(197,006)

Proceeds from debt issues are an other financing source in the funds, but a debt issue increases long-term liabilities in the statement of net assets.	(253,268)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	200,287
--	---------

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in sick and vacation leave - (support services)	(3,065)	
Change in sick and vacation leave- (instruction)	(9,197)	(12,262)

Change in Net Assets of Governmental Activities	<u><u>\$ (990,090)</u></u>
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The accompanying notes are an integral part of these financial statements.

Baraga Area Schools
Fiduciary Funds
Statement of Fiduciary Net Assets
June 30, 2006

	<u>Totals</u>
ASSETS:	
Cash and cash equivalents	\$ <u>83,322</u>
TOTAL ASSETS	<u>\$ 83,322</u>
LIABILITIES:	
Due to groups, organizations and activities	\$ <u>83,322</u>
TOTAL LIABILITIES	<u>\$ 83,322</u>

The accompanying notes are an integral part of these financial statements.

BARAGA AREA SCHOOLS
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A - THE FINANCIAL REPORTING ENTITY:

The School District operates under an elected Board of Education of seven (7) members, which are elected across the District to establish programs and policies.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the financial position of the Baraga Area Schools. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Based upon the application of these criteria, the financial statements of the Baraga Area Schools contain all the funds controlled by the School District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the School District conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other non-exchange revenues. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The School District reports the General Fund as its major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund – The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects). The special revenue funds for the Baraga Area Schools are the Food Service, Athletics and Bookstore Funds.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources such as taxes, state aid and interest revenue for the payment of general long-term debt principal, interest, and related costs.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below. In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Agency Funds financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

Inventories are stated at cost, on a first-in, first-out basis, which approximates market value. Inventories recorded in the General Fund consist of centrally warehoused teaching and operating supplies for the School District. The School Lunch Fund consists of food and paper goods. For other funds, expenditures are recorded at the time of use.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized. The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable. The School District has reported deferred revenue of \$188,980 in the General Fund and \$14,222 in the Debt Service Fund for grant funding that has been received but is unearned and delinquent property taxes receivable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

1. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted Net Assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity, and are classified as either program revenue or general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property taxes are levied on December 1, on behalf of the District by various taxing units and are payable without penalty by February 28. The District recognizes property tax revenue when levied to the extent they result in current receivables (collected within sixty days of the end of the fiscal year). Property taxes that are not collected within sixty days of the end of the fiscal year are recognized as revenue when collected.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.
- e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE C – DEPOSITS AND INVESTMENTS:

Cash Equivalents

The following is a reconciliation of cash and investments for both the unrestricted and restricted assets for the primary government and fiduciary funds from the Statement of Net Assets.

	Primary Government	Fiduciary Funds	Total
Unrestricted:			
Cash and cash equivalents	\$1,415,540	\$83,322	\$1,498,862
Investments	121,337	-	121,337
TOTALS	<u>\$1,536,877</u>	<u>\$83,322</u>	<u>\$1,620,199</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. State law does not require and the School does not have a deposit policy for custodial credit risk. The carrying amounts of the School's deposits with financial institutions were \$1,498,862 and the bank balance was \$ 1,665,858. The bank balance is categorized as follows.

Amount insured by the FDIC	\$ 200,000
Amount uncollateralized and uninsured	1,465,858
	<u>\$1,665,858</u>

Investments

As of June 30, 2006, the School had the following investments.

	Fair Value	Investment Maturities (In years)			
		Less than 1	1-5	6-10	More than 10
PRIMARY GOVERNMENT:					
Unrestricted Investments:					
Michigan Liquid Asset Fund-Mutual funds	\$ 121,337	\$ 121,337	\$ -	\$ -	\$ -
TOTAL INVESTMENTS	\$ 121,337	\$ 121,337	\$ -	\$ -	\$ -

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the School's investments. The School does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Michigan statutes (Act 196, PA 1997) authorize the School to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC and authorized to operate in this state, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days from date of purchase, bankers' acceptances of the United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds. Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

The School has no investment policy that would further limit its investment choices. Ratings are not required for the School's investment in U.S. Government Agencies or equity-type funds. The School's investments are in accordance with statutory authority.

Concentration of Credit Risk

The School places no limit on the amount the School may invest in any one issuer. There were no investments subject to concentration of credit risk disclosure.

NOTE D – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governments consist of \$645,868 due from the State of Michigan for State Aid and \$166,781 due from other governmental units for the operation of special programs and grant projects.

NOTE E – ACCRUED LIABILITIES:

A summary of accrued liabilities at June 30, 2006 as follows:

	Governmental Activities
Accrued wages	\$ 242,658
MESSA payable	87,583
Accrued fringes	-
Accrued interest	-
	<u>\$ 330,241</u>

NOTE F – LONG-TERM OBLIGATIONS:

A summary of long-term obligations at June 30, 2006, and transactions related thereto for the year then ended is as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
School Improvement Bond, Series 1998	\$69,154	\$-	\$24,789	\$44,365
1989 Refunding Bonds	193,229	-	51,931	141,298
1991 Issue – School Bond	277,766	-	123,567	154,199
State School Bond Loan Program	3,605,823	253,268	-	3,859,091
Subtotal	<u>4,145,972</u>	<u>253,268</u>	<u>200,287</u>	<u>4,198,953</u>
Employee Benefits – Sick and Vacation Leave	198,249	12,262	-	210,511
TOTAL LONG-TERM DEBT	<u>\$4,344,221</u>	<u>\$265,530</u>	<u>\$200,287</u>	<u>\$4,409,464</u>

School Improvement Bonds – Series 1998
June 30, 2006

School Year	May 15		
	Interest	Principal	Total
2006-2007	\$2,112	\$5,488	\$7,600
2007-2008	1,850	5,750	7,600
2008-2009	1,576	6,024	7,600
2009-2010	1,289	6,311	7,600
2010-2011	989	6,611	7,600
2011-2012	674	6,926	7,600
2012-2013	345	7,255	7,600
Totals	<u>\$8,835</u>	<u>\$44,365</u>	<u>\$53,200</u>

The School Improvement Bonds, Series 1998 (\$108,245) dated November 24, 1998 mature annually on May 15, with interest at a rate of 4.76% per annum. The only revenue source for making the debt service payment on these School Improvement Bonds is an annual appropriation from the State of Michigan.

1989 Refunding Bonds
June 30, 2006

School Year	May 1		
	Interest	Principal	Total
2006-2007	\$116,149	\$43,851	\$160,000
2007-2008	111,716	38,284	150,000
2008-2009	103,224	31,776	135,000
2009-2010	97,613	27,387	125,000
Totals	<u>\$428,702</u>	<u>\$141,298</u>	<u>\$570,000</u>

Zero Coupon Bonds (\$556,807) dated February 29, 1989 mature annually on May 1 and bear interest at a rate of 7.00% to 7.30% per annum. Interest is paid annually on May 1 of each year.

NOTE F – LONG-TERM OBLIGATIONS (Continued):

**1991 Issue – School Bond
Loan Refunding Bonds
June 30, 2006**

School Year	May 15		Total
	Interest	Principal	
2006-2007	\$238,788	\$121,212	\$360,000
2007-2008	72,013	32,987	105,000
Totals	\$310,801	\$154,199	\$465,000

Capital Appreciation Bonds (\$679,461) dated August 29, 1991, maturing annually on May 15 with interest at a rate of 6.75% to 7.05% per annum.

**State School Bond Loan Program
June 30, 2006**

July 1, 2005 Balance	May 1		June 30, 2006
	Added Interest	Added Principal	
\$3,605,823	\$148,171	\$105,097	\$3,859,091

The District has borrowed from the State School Bond Loan Program to apply towards maturing principal and interest payments on their serial bonds. The balance owed as of June 30, 2006 is \$3,859,091, including accrued interest.

Debt Service Requirements

The annual requirements to pay principal and interest based on debt outstanding at June 30, 2006 (exclusive of employee benefits and State School Bond Loan Program) are as follows:

Fiscal	Principal	Interest	Total
2006-2007	\$170,551	\$357,049	\$527,600
2007-2008	77,021	185,579	262,600
2008-2009	37,800	104,800	142,600
2009-2010	33,698	98,902	132,600
2010-2011	6,611	989	7,600
2011-2012	6,926	674	7,600
2012-2013	7,255	345	7,600
Totals	\$339,862	\$748,338	\$1,088,200

NOTE G – SICK LEAVE AND VACATION LEAVE – COMPENSATED ABSENCES:

The School District accrues the liability for earned sick leave based on the termination method. The liability is accrued as the benefits are earned. The current labor agreements stipulate sick leave must be taken in order to be paid, except at retirement. Teachers and administration personnel have the option of being paid for one-half of accumulated sick leave days, up to a maximum of 180 accumulated days, or they may request payment for the Universal Service Credit up to a maximum of \$32,500, upon retirement. Other non-teaching employees may accrue up to 90 sick leave days, and are paid for up to 70 sick leave days upon retirement. As of June 30, 2006, the liability for sick leave is \$194,819.

A vacation liability of \$15,692 for non-teaching employees is recorded in the statement of net assets.

NOTE H – CAPITAL ASSETS:

Capital assets activity of the School District's governmental activities was as follows:

	Balance at 7/01/05	Additions	Disposals	Balance at 6/30/06
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$700	\$-	\$-	\$700
Construction-in-progress	-	-	-	-
Total Capital Assets not being Depreciated	700	-	-	700
Capital assets being depreciated:				
Site improvements	1,201,532	12,787	-	1,214,319
Buildings	4,956,940	5,996	-	4,962,936
Equipment	567,499	13,228	-	580,727
Vehicles and buses	409,785	-	-	409,785
Total Capital Assets being Depreciated	7,135,756	32,011	-	7,167,767
Less accumulated depreciation:				
Site improvements	(382,631)	(43,739)	-	(426,370)
Buildings	(2,358,124)	(99,259)	-	(2,457,383)
Equipment	(322,097)	(58,845)	-	(380,942)
Vehicles and buses	(277,621)	(27,174)	-	(304,795)
Total Accumulated Depreciation	(\$3,340,473)	(\$229,017)	\$ -	(\$3,569,490)
Governmental Activities Capital Assets, Net	\$ 3,795,983	\$ (197,006)	\$ -	\$ 3,598,977

Depreciation expense was charged to governmental activities as follows:

Governmental Activities:	
Unallocated	\$229,017
Total Governmental Activities Depreciation Expense	\$229,017

NOTE I – RESERVED AND DESIGNATED FUND EQUITY:

The School District reserves fund equities for the following funds:

School Lunch Fund – The resources of the School Lunch Fund are to be used for the school lunch program. The fund equity is reserved for this purpose.

Debt Service Funds – The resources of the Debt Service Funds have been accumulated for the specific purpose of bond and interest debt retirement. The fund equities are reserved for these purposes.

NOTE J – STATE REVENUE:

The State of Michigan currently uses a foundation grant approach which provides for a specific annual amount of revenue per student based on a state wide formula. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the weighted average of pupil membership counts taken in February and October of 2005.

NOTE J – STATE REVENUE (Continued):

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2005 - August 2006.

The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

NOTE K – FUND MODIFICATIONS (TRANSFER TO/FROM OTHER FUNDS):

	Transfers In		Transfers Out
School Lunch Fund	\$27,000	General Fund	\$161,194
Athletic Fund	134,194		
TOTAL	\$161,194	TOTAL	\$161,194

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) moves receipts restricted to Debt Service from the funds collecting the receipts to the Debt Service Fund as debt service payments become due, and (3) use unrestricted revenue collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE L – NONMONETARY TRANSACTIONS:

The School District receives USDA donated food commodities for use in its food service program which are accounted for in the School Lunch Fund. The commodities are accounted for on the modified accrual basis and the related revenues and expenditures are recognized as commodities as utilized. The School District recognized \$8,494 during fiscal 2006 in revenues and expenditures for USDA commodities.

NOTE M – PROPERTY TAXES:

The taxable value of real and personal property located in the School District at December 31, 2005 totaled \$49,957,681 (\$25,657,332 designated as Homestead and \$24,300,349 designated as Non-Homestead). The total tax levied consists of 16.4571 mills for the General Fund and 7.9500 mills for debt retirement.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN:

Substantially all of the School District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

NOTE N – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN (Continued):

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death, disability, health, medical, dental, and vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 14.87% of covered compensation to the Plan through September 30, 2005 and 16.34% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2006 was \$555,043 which consisted of \$472,141 from the School District and \$82,902 from employees electing the MIP option. These represent approximately 16% and 3% of covered payroll, respectively. The School District's contributions to MPSERS for 2005 was \$402,214 and for 2004 was \$352,107.

Payroll paid to employees covered by the System for the year ended June 30, 2006 was approximately \$2,946,953. The School District's total payroll was approximately \$3,027,327.

Other Post-Employment Benefits

In addition to pension benefits, MPSERS provides comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. A significant portion of the premium is paid by MPSERS with the balance deducted from the monthly pension of the retiree. The portion provided by MPSERS is factored into the pension contribution rate.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPSERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPSERS, at MPSERS, P.O. Box 30673, Lansing, Michigan, 48909-8103.

NOTE O – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

NOTE O – CONTINGENT LIABILITIES (Continued):

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE P – ECONOMIC DEPENDENCY:

The School District received approximately 80 percent of its revenue through state and federal sources to be used for providing elementary and secondary education for the residents of Baraga. The District's Foundation Allowance is set by the state and includes the local contribution from Non Homestead taxes. Increases in the local Non Homestead property tax revenues are offset by a corresponding decrease in state aid on a per pupil basis.

NOTE Q – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2006:

	<u>Excess Expenditures</u>
General Fund:	
Instruction:	
Compensatory Education	\$12,351
Support Services:	
Home School Coordinator/Social Work	14,021
Supervision and Direction of Instructional Staff	30
Central Services	230
Special Revenue Funds:	
Athletics	434
Bookstore	96

REQUIRED SUPPLEMENTAL INFORMATION

Baraga Area Schools

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 510,060	\$ 524,531	\$ 573,836	\$ 14,471	\$ 49,305
State sources	3,867,664	3,471,499	3,476,670	(396,165)	5,171
Federal sources	656,288	876,853	893,300	220,565	16,447
TOTAL REVENUES	5,034,012	4,872,883	4,943,806	(161,129)	70,923
EXPENDITURES:					
Instruction:					
Basic Programs	2,772,514	2,717,331	2,690,610	55,183	26,721
Added Needs	669,578	582,269	578,064	87,309	4,205
Adult/Continuing education	-	14,899	14,898	(14,899)	1
Total Instruction	3,442,092	3,314,499	3,283,572	127,593	30,927
Supporting Services:					
Pupil services	141,677	382,821	394,332	(241,144)	(11,511)
Instructional staff	155,670	229,729	226,625	(74,059)	3,104
Administration	394,540	529,085	521,166	(134,545)	7,919
Business services	52,500	121,572	112,960	(69,072)	8,612
Operation and maintenance	1,306,151	953,267	930,953	352,884	22,314
Total Supporting Services	2,050,538	2,216,474	2,186,036	(165,936)	30,438
Payments to Other Governmental Agencies					
Other	12,500	3,250	3,250	9,250	-
Total Payments to Other Government Agencies	12,500	3,250	3,250	9,250	-
Facilities Acquisition					
Capital Outlay	-	45,993	45,978	(45,993)	15
Total Facilities Acquisition	-	45,993	45,978	(45,993)	15
TOTAL EXPENDITURES	5,505,130	5,580,216	5,518,836	(75,086)	61,380
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(471,118)	(707,333)	(575,030)	(236,215)	132,303
OTHER FINANCING SOURCES					
Transfers out	(130,000)	(161,295)	(161,194)	(31,295)	101
NET CHANGE IN FUND BALANCE	(601,118)	(868,628)	(736,224)	(267,510)	132,404
Fund Balance, July 1	2,719,703	2,719,703	2,719,703	-	-
FUND BALANCE, JUNE 30	\$ 2,118,585	\$ 1,851,075	\$ 1,983,479	\$ (267,510)	\$ 132,404

OTHER SUPPLEMENTAL INFORMATION

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Taxes and Penalties:			
Property tax levy	\$ 446,191	\$ 460,785	\$ 14,594
Other Local Sources:			
Rental of school facilities	22	22	-
Donations	4,520	4,520	-
Other local revenue	17,300	44,656	27,356
Income from investments	56,498	63,853	7,355
TOTAL LOCAL SOURCES	524,531	573,836	49,305
State Sources:			
Unrestricted:			
Proposal A Obligation	1,723,761	1,209,848	(513,913)
Discretionary Payment	1,343,985	1,858,082	514,097
Restricted:			
At Risk	114,000	121,796	7,796
Alternative Education	120,790	120,791	1
Adult Education	9,096	9,571	475
Special Education - Head lee	134,043	134,043	-
Bilingual and Compensatory Education	15,000	11,714	(3,286)
Non-Durant Settlement	10,824	10,825	1
Drivers Education	-	-	-
TOTAL STATE SOURCES	3,471,499	3,476,670	5,171
Federal Sources:			
Restricted:			
Title VII - Indian Education	57,000	71,021	14,021
Public Law 81-874	548,821	548,823	2
Schools & Roads	16,053	16,054	1
Restricted - received through the state:			
E.I.C.I.A. Title I	156,000	155,704	(296)
E.I.C.I.A. Title V	7,208	7,460	252
Drug Free Schools and Communities Grant	-	-	-
E.I.C.I.A. Title II, Part A	60,185	62,600	2,415
E.I.C.I.A. Title II, Part D	2,800	2,852	52
Tech Literacy Challenge	-	-	-
Freedom to Learn	-	-	-
E.I.C.I.A. Title III, Part A	24,784	24,784	-
Homeland Security	4,002	4,002	-
Restricted - received through the CCISD:	-	-	-
TOTAL FEDERAL SOURCES	876,853	893,300	16,447
TOTAL REVENUES	4,872,883	4,943,806	70,923

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
EXPENDITURES:			
Instruction:			
Elementary:			
Salaries	\$ 784,377	\$ 783,403	\$ 974
Fringe benefits	406,398	390,352	16,046
Purchased services	25,456	24,787	669
Supplies and materials	59,269	58,052	1,217
Capital outlay	4,805	4,804	1
Other expenses	1,521	1,458	63
TOTAL ELEMENTARY	<u>1,281,826</u>	<u>1,262,856</u>	<u>18,970</u>
Secondary:			
Salaries	897,920	897,905	15
Fringe benefits	446,433	441,137	5,296
Purchased services	14,161	13,226	935
Supplies and materials	66,514	65,371	1,143
Capital outlay	3,411	3,410	1
Other expenses	7,066	6,705	361
TOTAL SECONDARY	<u>1,435,505</u>	<u>1,427,754</u>	<u>7,751</u>
Summer School:			
Salaries	4,295	4,295	-
Fringe benefits	1,558	1,555	3
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL SUMMER SCHOOL	<u>5,853</u>	<u>5,850</u>	<u>3</u>
Special Education:			
Salaries	240,643	240,479	164
Fringe benefits	133,204	117,689	15,515
Purchased services	94	94	-
Supplies and materials	8,720	7,846	874
Capital outlay	-	-	-
Other expenses	138	138	-
TOTAL SPECIAL EDUCATION	<u>382,799</u>	<u>366,246</u>	<u>16,553</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Compensatory Education:			
Salaries	\$ 93,946	\$ 106,014	\$ (12,068)
Fringe benefits	80,714	80,702	12
Purchased services	10,118	10,416	(298)
Supplies and materials	4,277	4,274	3
Capital outlay	2,000	2,000	-
Other expenses	2,562	2,562	-
TOTAL COMPENSATORY EDUCATION	<u>193,617</u>	<u>205,968</u>	<u>(12,351)</u>
Alternative Education			
Salaries	12,000	12,000	-
Fringe benefits	2,871	2,871	-
Purchased services	25	25	-
Supplies and materials	3	2	1
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL ALTERNATIVE EDUCATION	<u>14,899</u>	<u>14,898</u>	<u>1</u>
TOTAL INSTRUCTION	<u>3,314,499</u>	<u>3,283,572</u>	<u>30,927</u>
Supporting Services:			
Pupil Services:			
Truancy/Absenteeism			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	2,580	2,564	16
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL TRUANCY/ABSENTEEISM	<u>2,580</u>	<u>2,564</u>	<u>16</u>
Guidance:			
Salaries	187,572	187,558	14
Fringe benefits	81,168	80,074	1,094
Purchased services	1,845	1,845	-
Supplies and materials	1,232	1,232	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL GUIDANCE	<u>271,817</u>	<u>270,709</u>	<u>1,108</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Health:			
Salaries	\$ 13,078	\$ 13,077	\$ 1
Fringe benefits	16,788	15,514	1,274
Purchased services	490	486	4
Supplies and materials	2,138	2,109	29
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL HEALTH	<u>32,494</u>	<u>31,186</u>	<u>1,308</u>
Home School Coordinator/Social Work:			
Salaries	31,454	45,479	(14,025)
Fringe benefits	23,285	23,284	1
Purchased services	5,439	5,437	2
Supplies and materials	693	692	1
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL HOME SCHOOL COORDINATOR/SOCIAL WORK	<u>60,871</u>	<u>74,892</u>	<u>(14,021)</u>
Other Pupil Service:			
Salaries	11,958	11,958	-
Fringe benefits	3,101	3,023	78
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER PUPIL SERVICES	<u>15,059</u>	<u>14,981</u>	<u>78</u>
TOTAL PUPIL SERVICES	<u>382,821</u>	<u>394,332</u>	<u>(11,511)</u>
Instructional Staff:			
Improvement of Instruction:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	7,072	7,071	1
Supplies and materials	532	531	1
Capital outlay	-	-	-
Other expenses	2,000	2,000	-
TOTAL IMPROVEMENT OF INSTRUCTION	<u>9,604</u>	<u>9,602</u>	<u>2</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Library:			
Salaries	\$ 66,523	\$ 66,522	\$ 1
Fringe benefits	34,709	31,781	2,928
Purchased services	4,674	4,473	201
Supplies and materials	10,045	10,044	1
Capital outlay	27,792	27,791	1
Other expenses	35	35	-
TOTAL LIBRARY	<u>143,778</u>	<u>140,646</u>	<u>3,132</u>
Technology Assisted Instruction			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL TECHNOLOGY ASSISTED INSTRUCTION	<u>-</u>	<u>-</u>	<u>-</u>
Supervision and Direction of Instructional Staff			
Salaries	51,334	51,333	1
Fringe benefits	18,655	18,638	17
Purchased services	3,433	3,429	4
Supplies and materials	2,525	2,577	(52)
Capital outlay	-	-	-
Other expenses	400	400	-
TOTAL SUPERVISION AND DIRECTION OF INSTRUCTIONAL STAFF	<u>76,347</u>	<u>76,377</u>	<u>(30)</u>
TOTAL INSTRUCTIONAL STAFF	<u>229,729</u>	<u>226,625</u>	<u>3,104</u>
Administration:			
Board of Education:			
Salaries	-	-	-
Fringe benefits	25	25	-
Purchased services	27,359	27,308	51
Supplies and materials	1,979	1,978	1
Capital outlay	-	-	-
Other expenses	5,240	4,835	405
TOTAL BOARD OF EDUCATION	<u>34,603</u>	<u>34,146</u>	<u>457</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Executive Administration:			
Salaries	\$ 120,100	\$ 120,100	\$ -
Fringe benefits	52,760	52,711	49
Purchased services	8,603	8,601	2
Supplies and materials	4,419	3,949	470
Capital outlay	264	263	1
Other expenses	2,335	2,335	-
TOTAL EXECUTIVE ADMINISTRATION	<u>188,481</u>	<u>187,959</u>	<u>522</u>
Offices of Principals:			
Salaries	188,405	188,244	161
Fringe benefits	95,679	91,607	4,072
Purchased services	6,917	6,687	230
Supplies and materials	9,550	7,170	2,380
Capital outlay	500	454	46
Other expenses	4,950	4,899	51
TOTAL OFFICE OF PRINCIPALS	<u>306,001</u>	<u>299,061</u>	<u>6,940</u>
TOTAL ADMINISTRATION	<u>529,085</u>	<u>521,166</u>	<u>7,919</u>
Business Services:			
Fiscal Services:			
Salaries	53,935	53,865	70
Fringe benefits	46,299	46,083	216
Purchased services	13,484	5,875	7,609
Supplies and materials	1,743	1,119	624
Capital outlay	1,061	1,060	1
Other expenses	966	875	91
TOTAL FISCAL SERVICES	<u>117,488</u>	<u>108,877</u>	<u>8,611</u>
Other Business Services:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	4,084	4,083	1
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL OTHER BUSINESS SERVICES	<u>4,084</u>	<u>4,083</u>	<u>1</u>
TOTAL BUSINESS SERVICES	<u>121,572</u>	<u>112,960</u>	<u>8,612</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operation and Maintenance:			
Operating Building Maintenance			
Salaries	\$ 180,516	\$ 179,780	\$ 736
Fringe benefits	129,869	128,387	1,482
Purchased services	102,806	100,273	2,533
Supplies and materials	208,598	201,082	7,516
Capital outlay	48,305	48,189	116
Other expenses	120	120	-
TOTAL OPERATING BUILDING MAINTENANCE	<u>670,214</u>	<u>657,831</u>	<u>12,383</u>
Transportation:			
Salaries	94,343	94,341	2
Fringe benefits	78,996	78,994	2
Purchased services	15,112	14,960	152
Supplies and materials	64,920	55,039	9,881
Capital outlay	900	826	74
Other expenses	350	334	16
TOTAL TRANSPORTATION	<u>254,621</u>	<u>244,494</u>	<u>10,127</u>
Staff/Personnel Services			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	4,000	3,966	34
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL STAFF/PERSONNEL SERVICES	<u>4,000</u>	<u>3,966</u>	<u>34</u>
Central Services			
Salaries	12,205	12,204	1
Fringe benefits	2,684	2,681	3
Purchased services	665	665	-
Supplies and materials	7,415	7,649	(234)
Capital outlay	-	-	-
Other expenses	1,463	1,463	-
TOTAL CENTRAL SERVICES	<u>24,432</u>	<u>24,662</u>	<u>(230)</u>
TOTAL OPERATIONS AND MAINTENANCE	<u>953,267</u>	<u>930,953</u>	<u>22,314</u>
TOTAL SUPPORT SERVICES	<u>2,216,474</u>	<u>2,186,036</u>	<u>30,438</u>

Baraga Area Schools

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Payments to Other Governmental Agencies			
L'Anse Area Schools - Tuition	\$ -	\$ -	\$ -
Community Schools	-	-	-
Michigan Technology University - Tuition	-	-	-
Copper Country Intermediate School District	-	-	-
Arvon Township Schools - Transportation	3,250	3,250	-
TOTAL PAYMENTS TO OTHER GOVERNMENTAL AGENCIES	<u>3,250</u>	<u>3,250</u>	<u>-</u>
Facilities Acquisition			
Capital Outlay	45,993	45,978	15
TOTAL FACILITIES ACQUISITION	<u>45,993</u>	<u>45,978</u>	<u>15</u>
TOTAL EXPENDITURES	<u>5,580,216</u>	<u>5,518,836</u>	<u>61,380</u>
EXCESS REVENUES (EXPENDITURES)	<u>(707,333)</u>	<u>(575,030)</u>	<u>132,303</u>
Other Financing Sources (Uses):			
Transfers Out:			
Lunch Fund	(27,000)	(27,000)	-
Athletic Fund	(134,195)	(134,194)	1
Bookstore Fund	(100)	-	100
TOTAL OTHER FINANCING USES	<u>(161,295)</u>	<u>(161,194)</u>	<u>101</u>
NET CHANGE IN FUND BALANCE	<u>(868,628)</u>	<u>(736,224)</u>	<u>132,404</u>
Fund Balance, July 1	<u>2,719,703</u>	<u>2,719,703</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 1,851,075</u></u>	<u><u>\$ 1,983,479</u></u>	<u><u>\$ 132,404</u></u>

Baraga Area Schools
Non-Major Governmental Funds
Combining Balance Sheet

June 30, 2006

	Special Revenue	Debt Service	Total
ASSETS			
Cash and cash equivalents	\$ 21,043	\$ 2,293	\$ 23,336
Investments	-	777	777
Accounts receivable	16,491	-	16,491
Delinquent Taxes Receivable	-	48,351	48,351
Inventory	2,257	-	2,257
TOTAL ASSETS	<u>\$ 39,791</u>	<u>\$ 51,421</u>	<u>\$ 91,212</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$ 15,599	\$ -	\$ 15,599
Deferred revenue	-	15,219	15,219
TOTAL LIABILITIES	<u>15,599</u>	<u>15,219</u>	<u>30,818</u>
FUND BALANCES:			
Reserved for:			
School service activities	24,192	-	24,192
Retirement of debt	-	36,202	36,202
Unreserved	-	-	-
TOTAL FUND BALANCES	<u>24,192</u>	<u>36,202</u>	<u>60,394</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 39,791</u>	<u>\$ 51,421</u>	<u>\$ 91,212</u>

Baraga Area Schools

Non-Major Governmental Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	Special Revenue	Debt Service	Total
REVENUES:			
Property taxes	\$ -	\$ 403,382	\$ 403,382
School lunch activities	102,557	-	102,557
Athletic activities	20,619	-	20,619
Bookstore activities	278	-	278
Interest	-	1,637	1,637
State aid	10,802	35,871	46,673
Federal sources	90,395	-	90,395
TOTAL REVENUES	224,651	440,890	665,541
EXPENDITURES:			
School lunch activities	215,298	-	215,298
Athletic activities	155,401	-	155,401
Bookstore activities	809	-	809
Debt service activities			
Principal	-	211,368	211,368
Interest and fees	-	488,744	488,744
TOTAL EXPENDITURES	371,508	700,112	1,071,620
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(146,857)	(259,222)	(406,079)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bond	-	253,268	253,268
Transfers in	161,194	-	161,194
TOTAL OTHER FINANCING SOURCES (USES)	161,194	253,268	414,462
NET CHANGE IN FUND BALANCE	14,337	(5,954)	8,383
Fund Balance, July 1	9,855	42,156	52,011
FUND BALANCE, JUNE 30	\$ 24,192	\$ 36,202	\$ 60,394

Baraga Area Schools
Non-Major Special Revenue Funds
Combining Balance Sheet
June 30, 2006

	School Lunch Fund	Athletic Fund	Bookstore Fund	Total
ASSETS				
Cash and cash equivalents	\$ 2,332	\$ 16,822	\$ 1,889	\$ 21,043
Accounts receivable	16,491	-	-	16,491
Inventory	1,942	-	315	2,257
TOTAL ASSETS	\$ 20,765	\$ 16,822	\$ 2,204	\$ 39,791
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ -	\$ 15,599	\$ -	\$ 15,599
TOTAL LIABILITIES	-	15,599	-	15,599
FUND BALANCES:				
Reserved for school service activities	20,765	1,223	2,204	24,192
TOTAL LIABILITIES AND FUND BALANCES	\$ 20,765	\$ 16,822	\$ 2,204	\$ 39,791

Baraga Area Schools

Non-Major Special Revenue Funds

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2006

	School Lunch Fund	Athletic Fund	Bookstore Fund	Total
REVENUES:				
Athletic activities	\$ -	\$ 20,619	\$ -	\$ 20,619
School lunch activities	102,557	-	-	102,557
Bookstore activities	-	-	278	278
State aid	10,802	-	-	10,802
Federal sources	90,395	-	-	90,395
TOTAL REVENUES	203,754	20,619	278	224,651
EXPENDITURES:				
School lunch activities	215,298	-	-	215,298
Athletic activities	-	155,401	-	155,401
Bookstore activities	-	-	809	809
TOTAL EXPENDITURES	215,298	155,401	809	371,508
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(11,544)	(134,782)	(531)	(146,857)
OTHER FINANCING SOURCES (USES):				
Transfers in	27,000	134,194	-	161,194
TOTAL OTHER FINANCING SOURCES (USES)	27,000	134,194	-	161,194
NET CHANGE IN FUND BALANCE	15,456	(588)	(531)	14,337
Fund Balance, July 1	5,309	1,811	2,735	9,855
FUND BALANCE, JUNE 30	\$ 20,765	\$ 1,223	\$ 2,204	\$ 24,192

Baraga Area Schools

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	\$ 99,143	\$ 102,557	\$ 3,414
State aid	10,061	10,802	741
Federal sources	89,423	90,395	972
TOTAL REVENUES	198,627	203,754	5,127
EXPENDITURES:			
School lunch activities:			
Salaries	63,604	63,434	170
Fringe benefits	53,078	52,784	294
Purchased services	302	301	1
Supplies and materials	102,945	97,944	5,001
Capital outlay	2,500	-	2,500
Other expenses	336	835	(499)
TOTAL EXPENDITURES	222,765	215,298	7,467
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(24,138)	(11,544)	12,594
OTHER FINANCING SOURCES (USES):			
Transfers in	25,000	27,000	2,000
TOTAL OTHER FINANCING SOURCES (USES):	25,000	27,000	2,000
NET CHANGE IN FUND BALANCE	862	15,456	14,594
Fund Balance, July 1	5,309	5,309	-
FUND BALANCE, JUNE 30	\$ 6,171	\$ 20,765	\$ 14,594

Baraga Area Schools

Athletic Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Athletic activities	\$ 21,066	\$ 20,619	\$ (447)
TOTAL REVENUES	<u>21,066</u>	<u>20,619</u>	<u>(447)</u>
EXPENDITURES:			
Athletic activities:			
Salaries	54,951	54,950	1
Fringe benefits	8,979	8,884	95
Purchased services	41,054	41,647	(593)
Supplies and materials	21,389	25,659	(4,270)
Capital outlay	25,660	21,577	4,083
Other expenses	<u>2,934</u>	<u>2,684</u>	<u>250</u>
TOTAL EXPENDITURES	<u>154,967</u>	<u>155,401</u>	<u>(434)</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(133,901)	(134,782)	(881)
OTHER FINANCING SOURCES (USES):			
Transfers in	<u>134,195</u>	<u>134,194</u>	<u>(1)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>134,195</u>	<u>134,194</u>	<u>(1)</u>
NET CHANGE IN FUND BALANCE	294	(588)	(882)
Fund Balance, July 1	<u>1,811</u>	<u>1,811</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ 2,105</u></u>	<u><u>\$ 1,223</u></u>	<u><u>\$ (882)</u></u>

Baraga Area Schools

Bookstore Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES:			
Bookstore revenue	\$ 218	\$ 278	\$ 60
TOTAL REVENUES	<u>218</u>	<u>278</u>	<u>60</u>
EXPENDITURES:			
Bookstore activities:			
Salaries	-	-	-
Fringe benefits	-	-	-
Purchased services	-	-	-
Supplies and materials	713	809	(96)
Capital outlay	-	-	-
Other expenses	-	-	-
TOTAL EXPENDITURES	<u>713</u>	<u>809</u>	<u>(96)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(495)	(531)	(36)
OTHER FINANCING SOURCES (USES)			
Transfer in	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(495)	(531)	(36)
Fund Balance, July 1	<u>2,735</u>	<u>2,735</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 2,240</u>	<u>\$ 2,204</u>	<u>\$ (36)</u>

Baraga Area Schools

Debt Service Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes and penalties	\$ 441,873	\$ 403,382	\$ (38,491)
State aid	-	35,871	35,871
Interest	1,278	1,637	359
TOTAL REVENUES	<u>443,151</u>	<u>440,890</u>	<u>(2,261)</u>
EXPENDITURES:			
Principal payments	298,566	211,368	87,198
Interest and agent fees	217,504	488,744	(271,240)
TOTAL EXPENDITURES	<u>516,070</u>	<u>700,112</u>	<u>(184,042)</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(72,919)	(259,222)	(186,303)
OTHER FINANCING SOURCES (USES):			
Proceeds from sale of bond	105,097	253,268	148,171
TOTAL OTHER FINANCING SOURCES (USES)	<u>105,097</u>	<u>253,268</u>	<u>148,171</u>
NET CHANGE IN FUND BALANCE	32,178	(5,954)	(38,132)
Fund Balance, July 1	42,156	42,156	-
FUND BALANCE, JUNE 30	<u><u>\$ 74,334</u></u>	<u><u>\$ 36,202</u></u>	<u><u>\$ (38,132)</u></u>

Baraga Area Schools
Student Activity Agency Fund
Statement of Changes in Assets and Liabilities
For the Year Ended June 30, 2006

	Balance July 1	Additions	Deductions	Balance June 30
ASSETS:				
Cash and cash equivalents	\$ 87,038	\$ 112,094	\$ 115,810	\$ 83,322
TOTAL ASSETS	<u>\$ 87,038</u>	<u>\$ 112,094</u>	<u>\$ 115,810</u>	<u>\$ 83,322</u>
LIABILITIES:				
Due to others	\$ 87,038	\$ 112,094	\$ 115,810	\$ 83,322
TOTAL LIABILITIES	<u>\$ 87,038</u>	<u>\$ 112,094</u>	<u>\$ 115,810</u>	<u>\$ 83,322</u>

COMPLIANCE SECTION



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

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ROBERT J. DOWNS, CPA, CVA

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MICHIGAN
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Baraga Area Schools as of and for the year ended June 30, 2006, which collectively comprise the Baraga Area School's basic financial statements and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Baraga Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Baraga Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards* and which are described in the accompanying Schedule of Findings and Responses as item 06-01. These instances can also be found in a separate letter to management dated August 3, 2006.

This report is intended solely for the information and use of the audit committee, management, and Board of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 3, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, Michigan 49908

Compliance

We have audited the compliance of Baraga Area School's with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Baraga Area School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Baraga Area Schools' management. Our responsibility is to express an opinion on Baraga Area School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Baraga Area Schools compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Baraga Area School's compliance with those requirements.

In our opinion, Baraga Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Baraga Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Baraga Area School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants "caused by error or fraud" that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Board of Education
Baraga Area Schools

This report is intended solely for the information of the Board, management, state and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 3, 2006

Baraga Area Schools
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2006

Federal Grantor\ Pass Through Grantor Program Title/Grant Number	Federal CFDA #	Project #	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	Accrued (Deferred) Revenue 7/1/2005	Current Year Expenditures	Current Year Cash Receipts	Accrued (Deferred) Revenue 6/30/2006
U.S. Department of Agriculture:								
Direct Awards								
Schools & Roads								
Sub-Total Direct Awards								
10.665			\$ 14,802	\$ 13,774	\$ -	\$ 14,802	\$ 14,802	\$ -
10.550			378	259	-	378	378	-
10.550			8,116	8,823	-	8,116	8,116	-
			8,494	9,082	-	8,494	8,494	-
Sub-Total Commodities								
10.553			11,613	10,513	-	11,613	11,613	-
10.555			56,585	57,036	-	56,585	56,585	-
10.555			10,713	10,949	-	10,713	10,713	-
			67,298	67,985	-	67,298	67,298	-
Sub-Total National School Lunch								
Sub-Total MDE			87,405	87,580	-	87,405	87,405	-
102,207			102,207	101,354	-	102,207	102,207	-
Total U.S. Department of Agriculture								
84.041			548,823	620,863	-	548,823	548,823	-
84.060		S060A030439	56,446	8,449	(47,997)	47,997	-	-
84.060		B060A050439	56,559	-	-	23,024	40,200	(17,176)
			113,005	8,449	(47,997)	71,021	40,200	(17,176)
Sub-Total Title IX, Indian Education								
661,828			661,828	629,312	(47,997)	619,844	589,023	(17,176)
Sub-Total Direct Awards								
84.010		051530-0405	155,717	3,865	3,326	-	3,326	-
84.010		051530-0506	8,382	155,717	-	8,382	8,382	-
84.010		061530-0506	152,866	-	-	147,322	79,519	67,803
			316,965	159,582	3,326	155,704	91,227	67,803
Sub-Total Title I, Part A								
84.184		042600-0C503	37,288	37,288	576	-	576	-
84.298		050250-0405	2,711	2,711	1,179	-	1,179	-
84.298		050250-0506	3,453	3,080	-	3,453	3,453	-
84.298		060250-0506	4,007	-	-	4,007	819	3,188
			10,171	5,791	1,179	7,460	5,451	3,188
Sub-Total Title V, Part A - LEA Allocation								
84.318		064290-0506	2,852	-	-	2,852	934	1,918
84.365		060580-0506	24,784	-	-	24,784	-	24,784

U.S. Department of Education:

Direct Awards
P.L. 81-874 Title VIII of ESEA Impact Aid
Title IX, Indian Education
Title IX, Indian Education
Sub-Total Title IX, Indian Education
Sub-Total Direct Awards

Passed through Michigan Department of Education:

Title I, Part A
Title I, Part A
Title I, Part A
Sub-Total Title I, Part A
Title IV, Part A - Drug Free Schools & Comm Natl Program
Title V, Part A - LEA Allocation
Title V, Part A - LEA Allocation
Title V, Part A - LEA Allocation
Sub-Total Title V, Part A - LEA Allocation
Title II, Part D
Title III

Federal Grantor\ Pass Through Grantor Program Title/Grant Number	Federal CFDA #	Project #	Approved Grant Award Amount	(Memo Only) Prior Year Expenditures	(Deferred) Revenue 7/1/2005	Current Year Expenditures	Current Year Cash Receipts	(Deferred) Revenue 6/30/2006
Title II, Part A:	84.367	050520-0405	\$ 32,047	\$ 32,047	\$ 494	\$ -	\$ 494	\$ -
Title II, Part A:	84.367	050520-0506	15,415	-	-	15,415	15,415	-
Title II, Part A:	84.367	060520-0506	47,185	-	-	47,185	-	47,185
			94,647	32,047	494	62,600	15,909	47,185
Sub-Total Title II, Part A								
			486,707	234,708	5,575	253,400	114,097	144,878
Sub-Total MDE				864,020	(42,422)	873,244	703,120	127,702
Total U.S. Department of Education			1,148,535					
U.S. Department of Homeland Security:								
Passed through Michigan State Police (MSP):								
State Homeland Security Grant Program	97.004		4,002	-	-	4,002	4,002	-
			4,002	-	-	4,002	4,002	-
Sub-Total MSP								
Total U.S. Department of Homeland Security			4,002	-	-	4,002	4,002	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			1,254,744	965,374	(42,422)	979,453	809,329	127,702

BARAGA AREA SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

NOTE A – OVERSIGHT AGENCY:

The U.S. Department of Education is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the School District's federal awards.

NOTE B – BASIS OF ACCOUNTING:

The Schedule of Expenditures of Federal Awards has been prepared on the accrual basis of accounting.

NOTE C – STATE GRANTS:

The following state grants were reported on Form R7120, Grants Section Auditors Report for the year ending June 30, 2006 and are not included on the Schedule of Federal Awards.

<u>Description</u>	<u>Project Number</u>	<u>State Expenditures</u>
School Breakfast	056320 M-24	\$ 2,989

NOTE D – FINAL COST REPORT - FORM DS4044:

The final cost reports are not due until 60 days after the end of the grant period. The reports for the current year were not completed as of the date of our report. However, we reviewed the reports filed for the prior year grants and noted that they agreed with either the prior year audited figures or the prior year and current year audit figures combined.

NOTE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION:

The amounts reported as current payments on the R7120, Grant Section Auditors Report, reconcile with the Schedule of Expenditures of Federal Awards as follows:

Current payments per R7120		\$195,998
Add – payments not on R7120:		
Direct programs	\$ 634,646	
Pass through CCISD	-	
Pass through Michigan State Police	4,002	
Bonus and entitlement commodities	8,494	647,142
Minus – state grants on R7120:		
School Breakfast – non-program	(2,989)	(2,989)
Adjustments:		
Rounding	(1)	
Accrued (deferred) revenue – BOY	(5,575)	
Accrued (deferred) revenue – EOY	144,878	139,302
Per the Schedule of Expenditures of Federal Awards		\$ 979,453

NOTE E – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS RECONCILIATION
(Continued):

A reconciliation of expenditures on the Schedule of Federal Awards to federal revenue is as follows:

GENERAL FUND:

Total Federal Revenue Sources Reported in the Financial Statements	\$ 983,695
Less: Revenue in lieu of taxes (Commercial Forest Reserve)	(1,253)

SCHOOL LUNCH SPECIAL REVENUE FUND:

Less: State School Breakfast	(2,989)
	<u>\$ 979,453</u>

BARAGA AREA SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the general purpose financial statements of Baraga Area Schools.
2. There were no reportable conditions disclosed during the audit of the financial statements.
3. There were no instances of noncompliance material to the financial statements of Baraga Area Schools disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs is reported in this schedule.
5. The auditors' report on compliance for the major federal award programs for Baraga Area Schools expresses an unqualified opinion.
6. No audit findings relative to the major federal award program for Baraga Area Schools were disclosed during the audit.
7. The programs tested as major programs were:

P.L. 81-874 Title VIII of ESEA Impact Aid	84.041
---	--------
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Baraga Area Schools was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

Excess Expenditures Over Appropriations

06-01 Condition/Criteria: Public Act 621 of 1978, Section 18 (1) as amended, provides that schools shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the District's actual expenditures and budgeted expenditures for the General Fund and Special Revenue Funds have been shown on a functional basis. The approved budgets of the District for these funds were adopted on an activity and/or program level. During the year ended June 30, 2006, the District incurred functional expenditures which were in excess of the amounts appropriated as shown within the basic financial statements.

Effect: The District is not in compliance with State Law.

Cause of Condition: Failure to amend the budgets during the year based on the level of expenditures.

Recommendation: The District should strictly control expenditures in each governmental fund so as not to exceed the original appropriation. When this is not possible, the budget should be amended accordingly.

Management Response – Corrective Action Plan: The budget will be more closely monitored and budget amendments will be made accordingly.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

NONE

BARAGA AREA SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the year June 30, 2005

Reportable Conditions – Financial Statement Audit

None



Baraga Area Schools
Report to Management Letter
For the Year Ended June 30, 2006

Board of Education
Baraga Area Schools
210 Lyons Street
Baraga, MI. 49908

In planning and performing our audit of the financial statements of the Baraga Area Schools for the year ended June 30, 2006; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control. The following comments are not reportable conditions as defined under standards established by the American Institute of Certified Public Accountants but are management points for which we feel consideration should also be given.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available un-appropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures, shall be filed with the State Treasurer and reported to the Attorney General.

Board of Education
Baraga Area Schools

The School was found to be in violation of the legal and contractual provisions of the Uniform Budgeting and Accounting Act (Public Act 621) in certain individual funds as enumerated upon in the Footnotes of the financial statements.

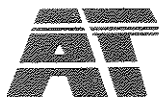
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This report is intended solely for the information and use of the Baraga Area School's board, management, and other legislative or regulatory body and is not intended to be and should not be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Baraga Area School's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 3, 2006



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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GREEN BAY
MILWAUKEE

August 3, 2006

To the Honorable President and School Board
Of Baraga Area Schools
210 Lyons Street
Baraga, MI 49908

We have audited the financial statements of the Baraga Area Schools for the year ended June 30, 2006, and has issued our report thereon dated August, 3, 2006. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Baraga Area School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Baraga Area School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Baraga Area School's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Baraga Area School's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Baraga Area School's compliance with those requirements.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Baraga Area Schools are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Baraga Area

To the Honorable President and School Board
Of Baraga Area Schools

Schools during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures.

An audit adjustment may or may not indicate matters that could have a significant effect on the Baraga Area School's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Baraga Area Schools, either individually or in the aggregate, indicate matters that could have a significant effect on the Baraga Area School's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Baraga Area School's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Baraga Area School Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants